FDIC State Profile

Winter 2005

Connecticut

Higher energy prices have affected Connecticut households, and prices are expected to remain elevated in 2006. Employment growth remains below the national average.

- Prices of all energy products rose rapidly in 2005 as Gulf coast storms disrupted supplies of crude oil and natural gas across the United States. Nationally, retail prices of heating oil for calendar 2005 are expected to average almost one-third more than a year earlier, and 2006 prices are expected to increase by an additional 10 percent.

- The cost of energy is relatively more expensive in Connecticut as there are few indigenous energy resources to replace disrupted supplies. Energy costs in Connecticut are expected to average about one-fifth higher in 2005 than in 2004 and to rise further in 2006 (see Chart 1).

- As a result, spending on residential energy in Connecticut may be well over 5 percent of disposable income in 2005, with lower income households impacted most by the higher prices.[1]

- Increased energy costs are affecting an already slow growing economy. Over the four quarters ending in the third quarter 2005, payroll employment in Connecticut grew by 1.1 percent, which was also the New England average. Over the same period, the national rate was 1.7 percent.

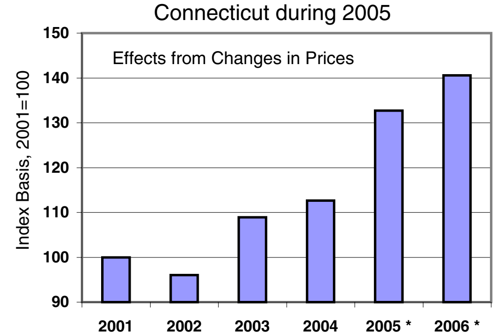
Housing markets remain strong, but changes may be underway.

- Sales of existing Connecticut homes, both single-family and condominiums, reached a record level in third quarter 2005 following strong sales in the second quarter.

- The yearly percentage increase in existing home prices as of third quarter 2005 was 10.6 percent, much reduced from the 14.2 percent increase posted in the second quarter (see Chart 2). This was the first time since first quarter 2000 that Connecticut's home price appreciation was lower than the nation's rate.

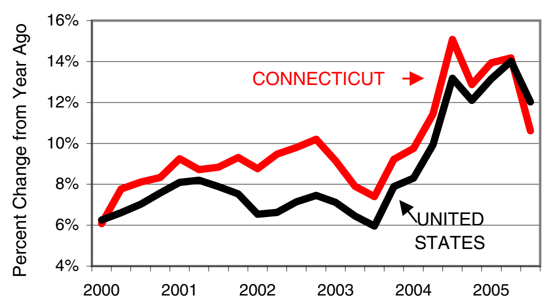
- Rising mortgage rates may reduce demand for new housing and refinancing activity. As of November, the 1-year

Chart 1: Residential Energy Costs Surged in Connecticut during 2005



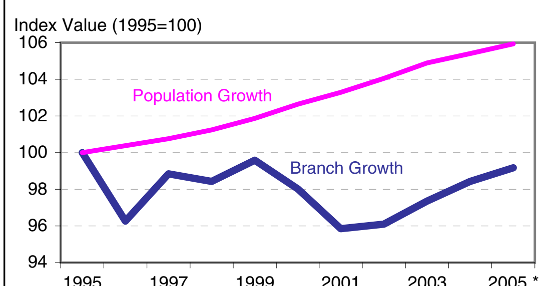
Source: Energy Information Agency * Forecast

Chart 2: House Prices in Connecticut Are Rising Much Less Rapidly Than Before



Source: OFHEO, Haver Analytics

Chart 3: Connecticut Branch Growth Lags Population Growth



* 2005 branch growth is actual; population growth is Census projection.
Sources: FDIC/OTS Summary of Deposits, U.S. Census, Economy.com

[1] FDIC estimates based on data supplied by the Bureau of Labor Statistics, Census Bureau, Bureau of Economic Analysis, and Moody's Economy.com.

adjustable rate averaged one of the highest rates in four years at 5.43 percent, and the 30-year fixed rate averaged a three-year high of 6.28 percent.

Connecticut's branch network growth reflects a mature banking market.

- Branch growth in Connecticut continues to trail national and regional rates, with growth over the past few years roughly half that of the nation. Since 2000, total branch growth has been 1.2 percent, while population growth has been 3.2 percent (see Chart 3). Comparisons over a longer time frame show an even wider divergence.

- Consequently, population per branch in the state has increased by 6.8 percent over the past decade, in contrast to declines of 2.1 percent for the nation and 0.7 percent for New England. The existing branch network is serving a larger population base and can be viewed as gaining in efficiency as automated teller networks and on-line banking systems are likely meeting the banking needs of a growing number of customers

While Connecticut's community institutions reported improving net interest margins, its large institutions experienced margin pressure.

- Although net interest margins (NIM)s at Connecticut's insured institutions have experienced pressure since the mid 1990s, the state's community institutions reported increasing NIMs in the past year as asset yields increased faster than funding costs (see Chart 4).[2] This improvement had a positive impact on bottom-line earnings as the median return on assets continued a series of small quarterly increases to 0.70 percent in third quarter 2005.

- After posting sizeable gains late in 2004 as asset yields increased sharply, the state's large institutions experienced a decline in NIMs in the second and third quarters of 2005 as funding costs began to increase. However, earnings at these institutions remained favorable. Third quarter 2005 return on assets declined 6 basis points from second quarter 2005 to 1.17 percent.

Credit quality remains favorable in Connecticut's insured institutions.

- Loan quality remained strong through third quarter 2005 in Connecticut's insured institutions. The median delinquent loan rate was below 1 percent as of September 30, 2005 (see Chart 5). The state's high concentration of residential real estate loans, which historically have performed well, helps keep overall delinquency rates low.

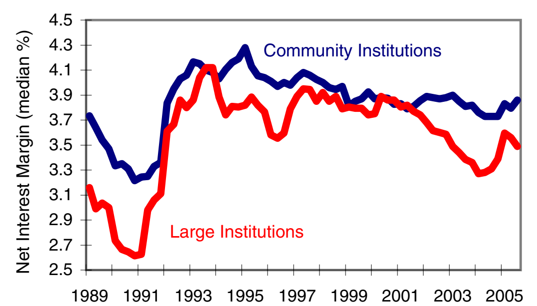
[2]Community institutions have assets <$1 billion. Analysis also excludes specialty institutions.

Noncore funding continues to augment slowing core deposit growth in Connecticut.

- Deposits in Connecticut's insured institutions funded a lower percentage of assets in 2005 than historically. In 1992 the median ratio of total deposits to assets was 90 percent; this ratio dropped to 79 percent at third quarter 2005. The drop in core deposit funding was even more pronounced (see Chart 6).

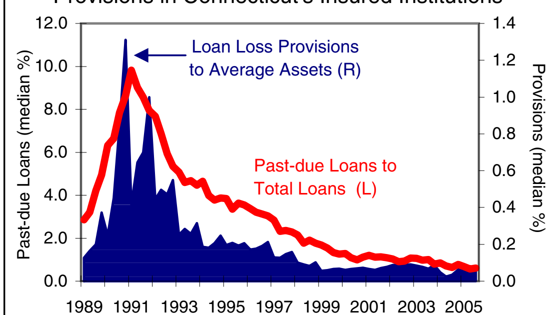
- The median ratio of noncore funding to assets rose from just less than 7 percent in 1992 to about 21 percent as of third quarter 2005.

Chart 4: Margins Rebounded for Community Institutions in 2005



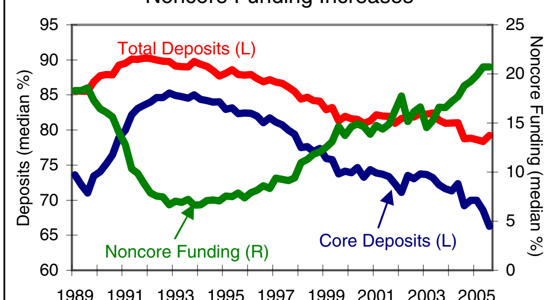
Source: FDIC, data through September 30, 2005

Chart 5: Favorable Credit Quality Allows Low Provisions in Connecticut's Insured Institutions



Source: FDIC, data through September 30, 2005

Chart 6: Core Deposits Continue to Decline as Noncore Funding Increases



Note: All data shown as a percentage of total assets.
Source: FDIC, data through September 30, 2005

Connecticut at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q3-05	Q2-05	Q3-04	Q3-04	2004
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.2%	1.3%	0.7%	0.4%	-1.2%
Manufacturing (12%)	-0.2%	0.1%	-0.5%	-1.2%	-5.3%
Other (non-manufacturing) Goods-Producing (4%)	6.8%	7.9%	5.9%	6.1%	-2.3%
Private Service-Producing (69%)	1.2%	1.4%	1.1%	0.8%	-0.4%
Government (15%)	0.2%	0.0%	-1.2%	-1.5%	-1.3%
Unemployment Rate (% of labor force)	5.3	5.1	4.8	4.9	5.5

Other Indicators	Q3-05	Q2-05	Q3-04	Q3-04	2004
Personal Income	N/A	7.3%	6.8%	6.8%	1.4%
Single-Family Home Permits	-4.6%	7.1%	15.8%	13.5%	-6.6%
Multifamily Building Permits	0.5%	-13.4%	51.7%	26.9%	99.8%
Existing Home Sales	8.3%	14.7%	7.5%	14.2%	-1.1%
Home Price Index	10.6%	14.2%	15.1%	12.3%	8.4%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	4.26	3.92	3.12	3.28	3.70

BANKING TRENDS

General Information	Q3-05	Q2-05	Q3-04	Q3-04	2004
Institutions (#)	58	58	58	57	63
Total Assets (in millions)	64,624	64,032	61,028	60,727	55,885
New Institutions (# < 3 years)	3	3	4	3	7
Subchapter S Institutions	1	1	1	1	1

Asset Quality	Q3-05	Q2-05	Q3-04	Q3-04	2004
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.61	0.57	0.63	0.78	0.82
ALLL/Total Loans (median %)	1.10	1.09	1.12	1.13	1.18
ALLL/Noncurrent Loans (median multiple)	2.89	3.09	2.54	3.42	2.73
Net Loan Losses / Total Loans (median %)	0.01	0.00	0.00	0.01	0.02

Capital / Earnings	Q3-05	Q2-05	Q3-04	Q3-04	2004
Tier 1 Leverage (median %)	10.49	10.46	10.21	10.24	9.36
Return on Assets (median %)	0.88	0.85	0.78	0.83	0.82
Pretax Return on Assets (median %)	1.27	1.25	1.15	1.31	1.24
Net Interest Margin (median %)	3.73	3.77	3.69	3.71	3.66
Yield on Earning Assets (median %)	5.61	5.46	5.13	5.13	5.39
Cost of Funding Earning Assets (median %)	1.82	1.69	1.41	1.46	1.63
Provisions to Avg. Assets (median %)	0.03	0.05	0.01	0.04	0.06
Noninterest Income to Avg. Assets (median %)	0.60	0.60	0.50	0.51	0.55
Overhead to Avg. Assets (median %)	2.89	2.92	2.89	2.97	2.81

Liquidity / Sensitivity	Q3-05	Q2-05	Q3-04	Q3-04	2004
Loans to Assets (median %)	67.1	65.1	63.6	65.7	59.1
Noncore Funding to Assets (median %)	20.3	20.5	18.4	19.2	16.4
Long-term Assets to Assets (median %, call filers)	20.2	19.2	22.6	22.5	26.0
Brokered Deposits (number of institutions)	15	15	15	13	9
Brokered Deposits to Assets (median % for those above)	1.0	1.9	1.3	1.6	0.6

Loan Concentrations (median % of Tier 1 Capital)	Q3-05	Q2-05	Q3-04	Q3-04	2004
Commercial and Industrial	36.2	40.2	37.3	37.0	41.7
Commercial Real Estate	164.4	161.3	164.6	162.2	144.8
Construction & Development	43.1	38.9	32.3	36.9	31.7
Multifamily Residential Real Estate	7.1	7.4	4.9	6.0	3.7
Nonresidential Real Estate	108.0	109.7	108.6	109.9	96.4
Residential Real Estate	367.0	362.1	361.5	361.5	371.5
Consumer	5.4	5.4	6.6	5.9	10.0
Agriculture	0.0	0.0	0.0	0.0	0.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Hartford-West Hartford-East Hartford, CT	30	28,777	< $250 million	25 (43.1%)
Bridgeport-Stamford-Norwalk, CT	26	22,671	$250 million to $1 billion	24 (41.4%)
New Haven-Milford, CT	25	16,485	$1 billion to $10 billion	7 (12.1%)
Norwich-New London, CT	13	3,938	> $10 billion	2 (3.4%)